

Cambodia: Background and U.S. Relations

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Summary

In the past few years, U.S. policy toward the Kingdom of Cambodia has broadened from a human rights focus to a multi-faceted approach. A key challenge for U.S. policy toward Cambodia lies in combining and balancing efforts to improve relations and to promote human rights and democracy in the kingdom. Cambodia's human rights record has been a constant source of friction between Prime Minister Hun Sen and major providers of foreign aid, which is equal to roughly half of the country's government budget. The kingdom's dependence on this aid has helped to keep pressure on the government to maintain or strengthen basic freedoms and democratic institutions. However, weak rule of law, corruption, and abuses of power have continued and in some cases become worse.

During the past decade, Cambodia has made progress in some areas of U.S. interest and concern, including economic growth, the development of civil society, the conduct of elections, labor rights, HIV/AIDS prevention, counterterrorism, and bringing Khmer Rouge leaders to justice. The return to relative political stability in Cambodia in 2006 after parliamentary crises during the 2003-2005 period ushered in a movement toward deeper U.S.-Cambodia ties. This trend also has been driven by U.S. interests in cooperating with Cambodia on counterterrorism efforts and responding to China's growing economic influence in the region. China has become a primary source of development financing, aid, and investment in Cambodia and Southeast Asia.

The United States and Cambodia maintain strong ties through aid and trade. Cambodia is the fourth largest recipient of United States assistance in Southeast Asia while the United States is Cambodia's largest export partner, buying 70% of its apparel exports. The United States provided \$57 million, \$55 million, and \$45 million in 2007, 2008, and 2009, respectively, for foreign aid programs, especially for health care, HIV/AIDS treatment and prevention, civil society, and economic competitiveness programs. The United States also supports de-mining efforts in the kingdom. Most U.S. assistance has been channeled through the many non-governmental organizations that are active in Cambodia.

Cambodia's economic growth has been fueled largely by the development of the textile and apparel industry and by tourism. With the termination of quotas on textiles by WTO member states in 2005 and the expiration of U.S. safeguards against garments from China in 2008, Cambodian textile exports are threatened by competition from China and other large producers. Cambodia has pressed the United States to grant its apparel exports preferential treatment. The Hun Sen government also has sought U.S. concessions on foreign debt incurred by the Lon Nol regime during the early 1970s.

The first trial of the Extraordinary Chamber in the Courts of Cambodia (ECCC), an international tribunal set up by the United Nations and the Cambodian government to try former Khmer Rouge leaders of crimes against humanity and war crimes, commenced in February 2009. Five former officials have been indicted. Due to unexpected costs and delays, the court has struggled to raise more funding in order to continue its operations. The U.S. government contributed \$1.8 million to the ECCC in September 2008. The U.S. government had withheld funding for several years due to concerns about whether the trials would be conducted fairly and without political interference.

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Overview

In the past few years, U.S. policy toward the Kingdom of Cambodia has broadened from a human rights focus to a multi-faceted approach. A key challenge for U.S. policy toward Cambodia lies in combining and balancing efforts to improve relations and to promote human rights in the kingdom. During the past decade, Cambodia has made progress in some areas of U.S. interest and concern, including the development of civil society, improvements in the conduct of elections, labor rights, counterterrorism, HIV/AIDS prevention, and bringing Khmer Rouge leaders to justice. However, government abuses of power and violations of human rights remain serious problems. Political violence and corruption also continue to mar democracy and governance in the kingdom.

The return to relative political stability in Cambodia in 2006 after parliamentary crises during the 2003-05 period ushered in a movement toward deeper U.S.-Cambodia ties. This trend also has been driven by U.S. interests in cooperating with Cambodia on counterterrorism efforts and responding to China's growing economic influence in the region and in Burma, Laos, and Cambodia in particular. The U.S. government opened a new embassy in the capital, Phnom Penh, in 2006. In 2007, the U.S. government lifted a ten-year ban on direct bilateral aid to Cambodia and two U.S. Navy ships made port calls in the kingdom, the first naval visits in 30 years. Possible areas for greater U.S. involvement and assistance in Cambodia include trade, infrastructure development, and environmental protection.

Some U.S. lawmakers argue that economic support for Cambodia should remain restricted until Prime Minister Hun Sen and the Cambodian government have established a record of respect for political freedoms and civil liberties and have reduced corruption. Other policy experts argue that greater U.S. engagement with Cambodia through foreign aid, enhanced trade, and diplomacy would better help to achieve U.S. goals and counter any adverse economic and political influence of China. Another policy option is to establish a dialogue with China and other major Southeast Asian countries on how to best promote development and security in Cambodia and the region.

Cambodia is the fourth largest recipient of U.S. foreign aid in Southeast Asia after Indonesia, the Philippines, and Vietnam. The United States is the largest overseas market for Cambodian goods, mostly apparel items. The Cambodian government has urged the U.S. government to grant its garment exports preferential treatment so that it can better compete with larger economies such as China. The Cambodian government also has requested that a portion of payments on the \$339 million debt owed to the United States, incurred during the 1970s, be used to pay for development programs in Cambodia.

Cambodia in Brief

Population: 14.2 million

Growth rate: 1.7%

Location: Borders Thailand, Vietnam, and Laos

Area: 181,040 sq. km. (about the size of Missouri)

Capital: Phnom Penh

Government: Constitutional Monarchy (King Norodom Sihamoni)

Major Political Parties: Cambodian People's Party (90 seats); Sam Rainsy (26 seats); FUNCINPEC (2 seats);

Ethnic groups: Khmer 90%; Vietnamese 5%; Chinese 1%; Other 4% (Cham, Burmese, hill tribes)

Modern Political History

The Kingdom of Cambodia received its independence from France in 1953 under the leadership of the popular king, Norodom Sihanouk. In 1955, Sihanouk abdicated in favor of his father, and assumed the post of Prime Minister and head of the ruling party.

When his father died in 1960, Sihanouk received the title of Prince. In 1965, Prince Sihanouk broke off diplomatic relations with the United States in response to U.S. and South-Vietnamese military incursions into the kingdom and growing U.S. influence in the Cambodian armed forces. Diplomatic relations were restored in 1969. Beginning in 1969, the United States conducted a four-year, sustained, large scale bombing campaign in Cambodia aimed at North Vietnamese troops in the country. According to some historians, the American bombing helped the Cambodian communists to gain followers and recruit soldiers. In March 1970, the military forces of pro-American General Lon Nol overthrew the government of Prince Sihanouk in a coup. The Prince fled to Beijing and reluctantly formed an alliance with the Cambodian communists against the Lon Nol government. A civil war followed, culminating in the defeat of Lon Nol in April 1975 by the Communist Party of Kampuchea (also known as the Khmer Rouge). The Prince returned to Phnom Penh from Beijing only to be placed under house arrest.

During the Khmer Rouge's brutal three-year reign – which included forced depopulation of the cities and the establishment of rural communes – nearly two million out of a population of eight million Cambodians died from execution, torture, overwork, starvation, and disease. Urban Cambodians with wealth and education were particularly targeted. In January 1979, an invasion by Vietnamese forces drove the Khmer Rouge from Phnom Penh. Sihanouk then sought refuge in China and North Korea. A 13-year civil war ensued, in which Khmer Rouge, Cambodian nationalist (KPNLF), and royalist (ANS) insurgents fought the Vietnamese-backed regime.¹

Religion: Theravada Buddhist 95%; Other 5%

Life Expectancy at Birth: 62 years

Literacy: 73%

GDP per capita: \$2,100 (purchasing power parity, 2008)

GDP growth: 7% (2008)

Source: CIA World Factbook, 2009.

¹ Despite their deep differences, the Khmer Rouge, which received Chinese military support, and the KPNLF and ANS, which received U.S. military assistance, formed an alliance in 1982 against the Vietnamese.

Figure 1. Map of Cambodia

Source: Map Resources. Adapted by CRS. (6/05)

Following the Vietnamese withdrawal from Cambodia in 1989, a United Nations (U.N.)-brokered peace settlement officially ended the war in October 1991 and led to elections for a 120-seat Constituent Assembly in May 1993. Prince Sihanouk returned to Cambodia as king.² Although the royalist FUNCINPEC Party (National United Front for an Independent, Neutral, Peaceful, and Cooperative Cambodia) won a 58-seat plurality, it agreed to form a coalition government with the Cambodian People's Party (CPP), with 51 seats, after the CPP threatened that it would not accept the election. The establishment of the coalition government with Prince Norodom Ranariddh, head of FUNCINPEC, and Hun Sen, head of the CPP, as co-prime ministers brought fragile political stability to Cambodia.³ The United States Congress passed several measures supporting non-communist resistance forces and humanitarian assistance in Cambodia and prohibiting assistance for the Khmer Rouge.

In 1997, after rising tensions between the coalition partners, Hun Sen staged an armed takeover of the government. An estimated 80-100 Cambodians, including many FUNCINPEC leaders, were killed, and Prince Ranariddh and other politicians fled Cambodia. In the face of considerable international pressure and the withholding of foreign aid, Hun Sen allowed Prince Ranariddh to return and held new parliamentary elections in July 1998, which the CPP narrowly won. Despite charges of election irregularities and post-election violence, the two parties again agreed to form a coalition government, with Hun Sen as Prime Minister and Prince Ranariddh as President of the

² On October 7, 2004, King Norodom Sihanouk abdicated the throne due to illness. On October 14, 2004, the Cambodian Throne Council selected Prince Norodom Sihamoni, Sihanouk's son, to succeed him as King.

³ In 1977, Hun Sen and other communist officials broke from the Khmer Rouge regime of Prime Minister Pol Pot and fled to Vietnam. They formed the core of the Vietnamese-backed government that ruled Cambodia from 1985-1989, with Hun Sen serving as Prime Minister.

National Assembly. The 105th Congress terminated bilateral or government-to-government assistance, which was not fully restored until 2007, and passed resolutions condemning a grenade attack in March 1997 on opposition leader Sam Rainsy and his supporters (S.Res. 69) and calling for free and fair elections in Cambodia (H.Res. 361).

Khmer Rouge Tribunal Commences

In 2003, after five years of negotiations, Cambodia and the United Nations agreed upon the procedural framework of an international tribunal for prosecuting former officials of the Khmer Rouge, which would operate under Cambodian law with a majority of Cambodian judges.⁴ The tribunal (the Extraordinary Chambers in the Courts of Cambodia, or ECCC) began proceedings in 2006 with three years of funding through a United Nations-administered international trust fund and bilateral donations totaling \$56 million. The tribunal reportedly has been hampered by interference from the Cambodian government and corruption by Cambodian court officials, as well as unexpected costs and delays. The main bilateral donors have included Japan, France, Germany, the U.K., and Australia. The ECCC has appealed for additional funding in order to help it operate for an additional year or more.⁵

The following Khmer Rouge leaders have been arrested and charged with crimes against humanity and war crimes: Kaing Guek Eav (known as Comrade Duch), Pol Pot's "chief executioner" who ran the infamous Toul Sleng (S-21) prison in Phnom Penh; Nuon Chea, the top ideologue under the Khmer Rouge; Ieng Sary, the former foreign minister, and his wife, Ieng Thirith, the regime's Minister of Social Affairs; and Khieu Samphan, the head of state. The first trial, bringing charges against Kaing Guek Eav, the youngest and most junior official among the five defendants, began in February 2009. Two Khmer Rouge leaders have already died. Many Cambodians fear that some of the defendants who are in their 70s and 80s will die before they stand trial.⁶ Human rights groups have pushed for expanding the scope of prosecutions to include more cases while Cambodian court officials have opposed the idea, arguing that bringing more persons to trial would undermine "national reconciliation."

U.S. foreign operations appropriations measures have prohibited U.S. assistance to the Khmer Rouge tribunal unless the Secretary of State determined and reported to Congress that Cambodia's judiciary is independent and that the tribunal meets internationally-recognized standards of fairness and credibility. The ECCC reportedly has implemented anti-corruption measures in response to international concerns. In September 2008, the State Department announced that the court was capable of meeting international standards of justice and pledged \$1.8 million in assistance to the international trust fund. The U.S. government also has provided funding and an endowment of \$2 million to the Documentation Center of Cambodia (DC-Cam), an archive, library, and public service center related to Khmer Rouge atrocities.

Political Developments Since 2002

In the past several years, voting institutions have strengthened while an active civil society and varied press have developed in Cambodia with foreign support. However, many problems related to political, civil, and property rights remain, including extrajudicial killings, government interference in the judiciary, defamation laws that restrict freedom of speech, and expropriation of

⁴ The U.N.-Cambodian agreement stipulates, in part: The Trial Chamber shall have three Cambodian and two international judges; the Supreme Court Chamber shall have four Cambodian and three international judges; there shall be one Cambodian and one international investigating judge; and there shall be one Cambodian and one international prosecutor. As a safeguard against Cambodian bias, verdicts require a "super-majority"—a simple majority plus the vote of at least one international judge.

⁵ "Khmer Rouge Trial Set for February in Cambodia," *Associated Press*, January 19, 2009; Seth Mydans, "Cambodia Begins Painful Look Back with Khmer Rouge Trials," *International Herald Tribune*, February 17, 2009.

⁶ Pol Pot, former leader of the Khmer Rouge, died in April 1998; military commander Ta Mok (nicknamed "The Butcher") died in 2006.

land without proper compensation.⁷ Corruption pervades Cambodian society and government. Transparency International's *Corruption Perceptions Index 2008* (degree of corruption) ranked Cambodia 166 out of 180 countries.⁸

CPP Consolidation of Power

The Cambodian People's Party under the leadership of Hun Sen has gained strength through a combination of electoral victories, legal, extra-legal, and political maneuvers, intimidation, patronage, and influence over the broadcast media. FUNCINPEC, the CPP's former major rival and partner, has fragmented and is no longer an independent political force. Its royalist legacy has lost popular appeal, especially with younger generations. In 2007, two new opposition parties were formed: Prince Ranariddh left FUNCINPEC to form his own party, the Norodom Ranariddh Party (NRP), while former FUNCINPEC Deputy General Secretary and human rights leader Kem Sokha established the Human Rights Party (HRP).

2008 National Assembly Elections

The fourth elections to the National Assembly were held in July 2008. Observers reported that the polls were peaceful and relatively free of voting irregularities. The main parties and candidates for Prime Minister were: the CPP (Hun Sen); FUNCINPEC (Norodom Arun Rasmey); SRP (Sam Rainsy); NRP (Norodom Ranariddh); and the HRP (Kem Sokha). The CPP further strengthened its hold on power, winning 90 of 123 seats in the Lower House, thereby allowing it to govern without a coalition partner.⁹ FUNCINPEC, with two seats, suffered a dramatic loss of 24 Members. The CPP invited FUNCINPEC as a coalition partner, but the latter has very little real power. The SRP gained two seats (26) and formed an alliance with the HRP with three seats. The Norodom Ranariddh Party (NRP) won only two seats.

Many observers as well as opposition parties accused the CPP of vote buying and of taking undue credit for economic development projects that were funded by international donors. Other analysts argue that although many of the CPP's gains have been ill-gotten or given it unfair advantages, the ruling party has garnered genuine popularity based upon the country's economic development, relative political stability, and material improvements achieved under its rule. By large majorities, Cambodians believe that their country is moving in the right direction (82%) and that the 2008 election process treated all parties fairly (75%), according to a survey by the International Republican Institute. However, 52% of these respondents reported having been offered a gift by a political party or candidate during the elections.¹⁰

⁷ A Cambodian human rights group reported 40 cases of extrajudicial killings committed by police, soldiers, and local officials in 2008. However, according to other sources, it is unclear if they were politically motivated, and no links to the central government have been established. U.S. Department of State, *2008 Human Rights Report: Cambodia*, February 25, 2009.

⁸ http://www.transparency.org/policy_research/surveys_indices/cpi/2008

⁹ Political parties are now required under the constitution to secure only a simple majority of members of the National Assembly in order to form a government.

¹⁰ International Republican Institute, "Survey of Cambodian Public Opinion," (October-November 2008).

2003-2005: Parliamentary Elections and Political Maneuvering

2003-2004: National Assembly Elections and Ensuing Stalemate

Many observers considered the July 2003 elections to the National Assembly to be an improvement over previous elections, with relatively minor voting irregularities.¹¹ However, some experts claimed that the elections were flawed and that the election process in Cambodia still “needed work”—from reducing pre-election violence, intimidation, and vote buying to providing more balanced media coverage and more candidate debates. The CPP won 73 seats in the 123-seat National Assembly, short of the two-thirds majority needed to lead the country on its own. FUNCINPEC and the SRP, with 26 and 24 seats, respectively, formed an “Alliance of Democrats” and vowed not to work with the CPP unless Hun Sen stepped down.

Without agreement on a coalition, the National Assembly did not meet and a new government was not formed. Hun Sen presided over a care-taker government pending the formation of a coalition. One year later, in July 2004, the National Assembly approved a constitutional amendment forcing a vote on a new government, and elected a coalition government with Hun Sen as Prime Minister and Prince Ranariddh as President of the National Assembly, thereby resuming their uneasy partnership. Opposition MPs asserted that the addendum was unconstitutional and boycotted the vote.

2005: Opposition Leaders Face Charges and Arrest

On February 3, 2005, the National Assembly voted, by a majority of over two-thirds, to revoke the parliamentary immunity from prosecution of opposition leader Sam Rainsy and two SRP Members, Chea Poch and Cheam Channy. While Sam Rainsy and Chea Poch fled the country to escape prosecution, Cheam Channy was arrested and charged with “recruiting soldiers for a shadow government.” Cheam Channy was convicted of creating an illegal armed force and Sam Rainsy was convicted in absentia for defamation against government leaders.

In late 2005 through January 2006, Hun Sen arrested several prominent Cambodian civil society leaders, including human rights activists, union organizers, a radio station owner, and a member of the royal family, for criticizing government policies. The United States government and many international observers strongly condemned the Cambodian National Assembly’s suspension of parliamentary immunity of opposition MPs and the government’s arrests of social and political leaders.¹² The U.S. Senate passed S.Res. 353 (109th Congress) on January 25, 2006, calling for the release of political prisoners in Cambodia.

In February 2006, prior to the annual meeting of foreign aid donors to Cambodia, the Hun Sen government pardoned Sam Rainsy, Chea Poch, and Cheam Channy and the National Assembly restored full parliamentary immunity to them. Defamation and other criminal complaints against seven prominent critics of the government were dropped. However, in August 2006, the National Assembly passed a law that would allow a Member of Parliament to be prosecuted for abusing “an individual’s dignity, public order, social customs, or national security,” parliamentary

¹¹ “Summary of Observations of the U.S. Long Term International Observation Group (LTOG) during the Cambodian National Assembly Election, September 2003.” Election monitoring by LTOG was administered by the Asia Foundation and funded by USAID.

¹² *States News Service*, February 3, 2005.

immunity notwithstanding. Some legislators feared that the law could be used to stifle freedom of speech.¹³

2007 Commune Elections

In the local elections held in April 2007, the CPP captured 1,591 of the 1,621 commune governments and 70% of commune council seats. The SRP won in 28 communes while FUNCINPEC won in only two localities. Reported election abuses and irregularities included vote buying, voter intimidation, and administrative problems that prevented many citizens from voting.¹⁴ Nonetheless, some analysts perceived the outcome of the local elections, held every five years, as a sign of the strength of the CPP, the decline of FUNCINPEC, and the rise of the SRP.

The Economy

Although Cambodia remains one of the poorest countries in Asia, its economy has experienced steady growth during the past decade and a half, while government budgetary performance and foreign investment opportunities have improved. However, continuing obstacles to faster and more balanced development and greater foreign investment include a limited human resource base, low government capacity, weak legal and financial institutions, poor infrastructure, and official corruption.

Cambodia formally joined the World Trade Organization (WTO) on October 13, 2004. As a member of the Association of Southeast Asian Nations (ASEAN) since 1999, the kingdom is committed to participating in the ASEAN Free Trade Area (AFTA) in 2015.¹⁵ Major export markets are the United States, Germany, and the United Kingdom; chief import sources are Thailand, Singapore, and China.¹⁶ Malaysia, China, and Taiwan have the largest cumulative foreign investments in the kingdom.¹⁷

Real GDP growth was estimated at 4.5% in 2008 and projected to decrease to 2.5% in 2009.¹⁸ Textile manufacturing, tourism, and construction have fueled growth in recent years. In 2008, 2.5 million foreign tourists were expected to visit the kingdom, with the largest numbers coming from South Korea, Japan, China, and Taiwan. However, garment exports and tourism began to slow in the second half of 2008 due to effects of the global economic recession.¹⁹

In 2005, the U.S. oil company Chevron announced the discovery of oil and gas reserves in the Gulf of Thailand off the coast of Cambodia. The prospects for oil have excited many Cambodian government leaders and citizens hoping that oil revenues will help to lift the country out of poverty. According to some estimates, revenues to the government could start at around \$175 million annually and peak at \$1.7 billion after drilling reaches full capacity in ten years. However, it may take two years or more before oil is first extracted, and potential reserves are still

¹³ Economist Intelligence Unit, *Country Report (Cambodia)*, January 2008.

¹⁴ "Cambodia's Hun Sen Keeps Firm Grip on Power," *Reuters News*, April 25, 2007; "At Least 100,000 Unable to Vote in Cambodia's Local Election," *Xinhua News Agency*, April 11, 2007.

¹⁵ ASEAN member countries are: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar (Burma), Philippines, Singapore, Thailand, and Vietnam.

¹⁶ Department of State, *Background Note: Cambodia*, November 2008.

¹⁷ U.S. Department of State, 2008 Investment Climate – Cambodia.

¹⁸ "Cambodian Economy to Grow by 2.5% in 2009: ADB," *Xinhua News Agency*, March 31, 2009.

¹⁹ "Declining Number of Tourists Affects the Livelihood of Those Providing Tourism Services," *The Mirror*, November 17, 2008.

uncertain. Petroleum companies from several countries, including the United States, Japan, China, Thailand, and South Korea, have begun exploration and drilling offshore and at onshore sites such as the Tonle Sap Basin, with Chevron in the lead as the developer of the first oil field.²⁰ However, some analysts have noted potential obstacles, particularly official corruption, to the rapid or full realization of Cambodia's dream of turning oil into economic development. Furthermore, Cambodia and Thailand have unresolved territorial disputes in the Gulf of Thailand where some of the largest oil and gas reserves are located.²¹

Cambodian Textile Exports

Many Cambodians have expressed fear that the country's garment sector is threatened by competition from more efficient manufacturers of more developed countries, particularly since quotas on textile exports by WTO member states ended in 2005. In 2007-2008, Cambodia's garment industry employed nearly 350,000 workers, contributed 80% of the kingdom's export earnings, and represented 16% of its GDP. One-fourth of the kingdom's population reportedly has benefited economically from the industry. Most foreign investment in the sector comes from Taiwan, China, South Korea, and Malaysia. Many textile factories reportedly are being relocated from China to Cambodia.²²

In January 2008, temporary safeguard measures imposed by the European Union against textile and apparel imports from China expired. Similar restrictions imposed by the United States ended on December 31, 2008, raising the possibility that China's market share will rebound and adversely affect demand for textiles from Cambodia and other emerging producers. In addition, the global economic recession has had serious repercussions on the Cambodian garment sector. Over 20 apparel factories have closed and between 20,000 and 40,000 Cambodian garment workers reportedly lost their jobs in 2008.²³ Clothing exports dropped nearly 40% in January 2009 compared to a year earlier and are predicted to fall by 30% for the year, according to Cambodian sources.²⁴

In addition to low labor costs, Cambodian garment factories have developed a reputation for good labor practices, largely because of a U.S.-Cambodia bilateral agreement, enacted in 1999, that rewarded progress in protecting labor rights with increased U.S. import quotas for Cambodian textiles until such quotas were eliminated in 2005. The International Labor Organization (ILO) has helped with monitoring and promoting good labor practices in the kingdom since 2001. Such activities have continued under the program *Better Factories Cambodia* with funding from the United States (U.S. Department of Labor and U.S. Agency for International Development), France, the Garment Manufacturers' Association in Cambodia, the Cambodian government, and international buyers.²⁵ It is still unclear whether or not such labor practices will help Cambodian garments to remain attractive to foreign buyers in the face of greater foreign competition.

²⁰ Susan Postlewaite, "Next Stop for Big Oil: Cambodia?" *BusinessWeek*, February 14, 2008; "Cambodia's First Oil Unlikely before 2010," *Reuters News*, November 4, 2008.

²¹ Ker Munthit, "Cambodia Faces Offshore Oil Discovery," Associated Press, November 1, 2006; Sherry Su, "Cambodia Braces for Oil Boom, China May Profit from it," *Dow Jones Newswires*, October 27, 2006.

²² "Cambodia Garment Exports Halve: Minister," *Agence France Presse*, March 12, 2009; Ek Madra, "Global Downturn Threatens Cambodian Garment Success," *Reuters News*, March 23, 2009.

²³ "Cambodia Garment Exports Halve: Minister," *ibid*; Stephen Kurczy, "Cambodia Shares the Pain," *Asia Times Online*, February 9, 2009.

²⁴ Madra, *op. cit.*

²⁵ [http://www.betterfactories.org]

U.S.-Cambodian Trade

The United States has a large economic impact on Cambodia through trade. The United States is the largest overseas market for Cambodian products, accounting for nearly 60% of the kingdom's total exports and 70% of its clothing exports in 2008.²⁶ Over 98% of Cambodian goods exported to the United States are textile and apparel items. The kingdom's total exports to the United States grew from \$3.7 million worth of goods in 1996 to \$2.46 billion in 2007, and then fell slightly to \$2.41 billion in 2008. Cambodian imports from the United States remain relatively limited, rising from \$138 million in 2007 to \$154 million in 2008, including road vehicles, machinery, and textile fibers.²⁷

In July 2006, the United States and Cambodia signed a bilateral trade and investment framework agreement (TIFA) to promote economic relations. Other TIFA partners in Southeast Asia include Brunei, Indonesia, Malaysia, the Philippines, Thailand, and ASEAN. TIFAs provide forums for the discussion and resolution of bilateral trade issues as well as foundations for potential FTA negotiations.

In 1997, President Clinton designated Cambodia a Least Developed Country (LDC) under the U.S. Generalized System of Preferences (GSP). However, the GSP system does not extend preferential treatment to textiles and garments. The government of Cambodia, along with other LDCs, is pressing the U.S. government to grant trade preferences on garment exports similar to those enjoyed by some African and Latin American nations.

Foreign Assistance

Foreign aid from a variety of sources is equal to over half of Cambodia's government budget. Since 1996, the Consultative Group (CG) for Cambodia, a consortium of international financial organizations and donor countries under the auspices of the World Bank, has met annually to set economic and political reform guidelines for the Cambodian government and to extend ever-expanding aid packages. Major bilateral providers of official development assistance (ODA) include Japan, the United States, Germany, France, and Australia. Total CG assistance averaged approximately \$600 million per year during the 2005-2008 period.²⁸ International donors pledged \$950 million in aid for 2009. Some human rights groups have criticized foreign aid donors for increasing assistance despite the Cambodian government's lack of progress in fighting corruption.

China's foreign assistance, which consists largely of concessional loans, aid for infrastructure projects, and investments in natural resources in many developing countries, differs from that of major ODA providers, which mostly provide grants for poverty-reduction programs, democratic governance efforts, and humanitarian aid.²⁹ Furthermore, China provides aid that is mostly "unconditional" – without requirements related to political and economic reform or social and environmental safeguards.

By some calculations, China has become the largest or second largest foreign aid provider to Cambodia. For 2009, China reportedly pledged the largest amount of aid (\$257 million), followed

²⁶ Central Intelligence Agency *World Factbook* (April 2009); Madra, op. cit.

²⁷ Global Trade Atlas.

²⁸ Organization for Economic Cooperation and Development (OECD).

²⁹ For a discussion of the differences between foreign aid provided by China and that of major developed countries and members of the Organization for Economic Cooperation and Development, see CRS Report R40361, *China's Foreign Aid Activities in Africa, Latin America, and Southeast Asia*, by Thomas Lum et al.

by the EU with \$214 million and Japan with \$112 million.³⁰ According to another source, during the 2007-2009 period, out of a projected \$2 billion in total ODA to Cambodia, Beijing announced an estimated \$236 million in unspecified funding compared to the EU's \$215 million and Japan's \$337 million.³¹ Some analysts argue that the United States should attempt to find ways to cooperate with China to assist Cambodia with infrastructure and energy development that provides for balanced and widespread development and protects human rights and the environment.³²

United States Assistance to Cambodia

Cambodia is the fourth largest recipient of U.S. foreign aid in Southeast Asia after Indonesia, the Philippines, and Vietnam, and the second largest recipient per capita after East Timor. Much of this assistance is channeled through non-governmental organizations (NGOs). The United States provided \$57 million, \$55 million, and \$45 million in 2007, 2008, and 2009, respectively, for foreign aid programs, especially for health care, HIV/AIDS treatment and prevention, civil society, and economic competitiveness programs. Other program areas include political transparency and accountability, combating transnational crime, and improving the Cambodian military's capabilities to protect the country's borders from transnational threats. In January 2007, the Peace Corps launched programs in Cambodia to teach English and develop sustainable community activities.

Cambodia has one of the largest numbers of landmines in the world. The kingdom reportedly has reduced its landmine casualty rate from 900 per year in 2005 to 347 in 2007 with the help of international assistance.³³ U.S. assistance includes support for removing unexploded ordnance and funding for prostheses, physical rehabilitation, employment, and related services for mine victims.

International health experts have praised Cambodia for reducing its HIV/AIDS infection rate from 3.3% in 1997 to 0.8% in 2008, largely through educational efforts and the use of condoms among sex workers. Estimates of the number of Cambodians living with HIV/AIDS range from 65,000 to 130,000. Estimates of the number of children orphaned by the disease range from 6,000 to 12,000.³⁴

Lifting U.S. Bilateral Aid Restrictions

In February 2007, the United States government lifted a ten-year prohibition on direct bilateral aid to Cambodia, following the release of political prisoners and restoration of political liberties to opposition leaders. For several years, the United States remained the only major donor country that had not resumed bilateral or government-to-government aid to Cambodia. Restrictions on U.S. assistance largely reflected congressional disapproval of Prime Minister Hun Sen's seizure

³⁰ "Cambodia Promised Aid Worth nearly \$1 billion for 2009," *Reuters News*, December 5, 2008; Zhao Bian, "Resurgent Cambodia Faced with Challenges," *China Daily*, April 11, 2008.

³¹ Economist Intelligence Unit, *Country Report (Cambodia)*, September 2007.

³² The Stanley Foundation, "Economic Dimensions of New Power Dynamics in Southeast Asia: Trends in Aid, Trade, and Infrastructure," July 2007.

³³ Japan, Australia, and the United States provided \$5.9, \$5.4, and \$3.9 in mine clearance and related assistance in 2007. *Landmine Monitor Report 2008*. See also: "Fed: Exhibition Highlights Horror of Cambodia Landmines," *Australian Associated Press*, April 14, 2008.

³⁴ "NGO Releases Erroneous Statistics on HIV-AIDS Situation in Cambodia," *Xinhua News Agency*, September 20, 2007; Guy Degen, "'Friends Helping Friends' Living with HIV/AIDS in Cambodia," UNICEF, May 18, 2007; 2006 Report on the Global AIDS Epidemic, UNAIDS, May 2006.

of power in 1997 and concerns about ongoing strong-arm tactics. Foreign operations appropriations measures barred U.S. assistance to the central government of Cambodia and instructed U.S. representatives to international financial institutions to oppose loans to Cambodia, except those that met basic human needs. U.S. assistance was permitted, however, to Cambodian and foreign NGOs and to local governments. Furthermore, in August 2005, the Bush Administration allowed Foreign Military Financing (FMF) for border surveillance (including maritime security) and counterterrorism efforts. In June 2008, the U.S. government delivered 60 trucks to the Royal Cambodian Armed Forces under the FMF program.

Foreign Debt

Cambodia's foreign or external debt is \$2.25 billion, representing 31% of GDP, according to some estimates. Roughly one-third of the debt is owed to Russia and the United States. The United States Department of Agriculture (USDA) provided agricultural commodities totaling \$276 million on favorable credit terms between 1972 and 1974, during the Lon Nol period.³⁵ This debt was never serviced by Lon Nol or successive Cambodian governments. Under Hun Sen, the Cambodian government has been reluctant to accept responsibility for the loans and has challenged the amount of debt, arguing that many of these shipments never reached Cambodia. In light of these claims, the United States government has waived interest on unpaid interest as well as charges for some food aid for which there is a lack of documentation. These waivers have reduced the total amount of debt owed to the United States by \$93 million. As of the end of 2007, Cambodia's total debt to the U.S. government was \$339 million (\$185 million in outstanding principal and \$154 million in principal arrears).

The Cambodian government reportedly has sought additional U.S. concessions on the Lon Nol loans. Cambodian leaders and some U.S. policy-makers have recommended that the United States government forgive or "recycle" some or all of Cambodia's debt. For example, under a debt-swap program similar to the educational exchange program established between the United States and Vietnam, the United States government would use Cambodian payments on its debt to fund programs in Cambodia such as those related to education, cultural preservation (the Angkor Wat temples), or de-mining.³⁶ The U.S. government has argued that because Cambodia is considered neither to be heavily indebted nor experiencing an external balance of payments crisis, the country's financial situation does not merit further debt reduction, and that extending preferential treatment to the kingdom may set a poor precedent for other creditor countries.³⁷

Foreign Relations

Cambodia's foreign policy is oriented toward several major regional actors, including China, the United States, Japan, Western European countries, ASEAN neighbors, and India. Cambodia's human rights record remains a constant source of friction between Prime Minister Hun Sen and major ODA donors, such as Japan, Australia, Germany, and France; the kingdom's dependence

³⁵ P.L. 480, Title I food aid: sale of agricultural commodities under concessional or favorable credit terms. The interest rate on the U.S. loans to Cambodia is 3%.

³⁶ In December 2000, the U.S. Congress passed the Vietnam Education Foundation Act (See P.L. 106-554, the Consolidated Appropriations Act for FY2001, Title II). The act established an educational exchange program financed by payments made by the Socialist Republic of Vietnam for debt that had been incurred by the Republic of South Vietnam prior to 1976.

³⁷ Testimony of Scott Marciel, U.S. Department of State, before the Subcommittee on Asia, the Pacific, and the Global Environment, House Foreign Affairs Committee, February 14, 2008.

on foreign aid has helped to keep pressure on the government to maintain or strengthen basic democratic norms and institutions. The Prime Minister visited New Delhi in 2007 where the two countries signed agreements on a \$35 million Indian loan to Cambodia as well as cooperation and technical assistance related to oil exploration, defense cooperation, and other areas.³⁸

Despite historical animosities and lingering border disputes, Cambodia and neighboring countries (Thailand, Vietnam, and Laos) maintain active diplomatic contacts and are becoming increasingly economically integrated. Cambodia and Thailand, which once ruled parts Cambodia, have a history of conflict, although they share cultural traits.³⁹ The two countries also have experienced outbreaks of tensions in recent years. In 2008, the long-simmering dispute over sovereignty of the land under the 11th century Khmer Preah Vihear temple along the Thai-Cambodia border reignited after the United Nations (UNESCO) granted the site World Heritage status. Border clashes between Thai and Cambodian troops in October 2008 and April 2009 left five Thai and three Cambodian soldiers dead. Claims about who started the exchanges of gunfire have been conflicting. The two sides have held talks to defuse the situation.⁴⁰ In 2003, Cambodian protesters attacked the Thai embassy in Phnom Penh after a Thai actress allegedly stated that Cambodia should return the Angkor Wat temples to Thailand.

Within the CPP, there reportedly are individuals and factions with pro-Vietnam and pro-China leanings. Hun Sen, who served as Foreign Minister in the Vietnam-backed People's Republic of Kampuchea during the 1980s, has maintained close diplomatic and military relations with Vietnam while welcoming Chinese economic assistance. Many Cambodians regard Vietnam with wariness stemming from Vietnam's control over parts their country prior to the French colonial period and during the 1980s.

Cambodia-China Relations

For the past decade, as Beijing has reached out to the region, Hun Sen has cultivated ties with the People's Republic of China (PRC). China has become a significant economic force in Southeast Asia as a financier for infrastructure and other economic development projects, buyer of raw materials, and source of low-priced manufactured goods. According to many experts, the PRC is one of the top providers of foreign assistance to Cambodia, mostly in the form of government buildings, large infrastructure projects, and economic investments but also including support for public health, de-mining efforts, elections, the restoration of Angkor Wat, and combating transnational crime. Since the late 1990s, China also has provided military assistance, including an army school and hospital, barracks, vehicles, five warships and nine patrol boats, as well as police and military training.⁴¹ In 2008, Beijing reportedly pledged \$1 billion for two major hydroelectric projects.⁴² In return for China's economic assistance, Phnom Penh has supported the "one-China" principle, despite the country's significant economic relations with Taiwan.⁴³

³⁸ "India, Cambodia Sign Defense, Development Agreements," *Dow Jones International News*, December 9, 2007.

³⁹ "Historical Baggage a Burden on Thai-Cambodian Relations," *The Nation*, July 2, 2008.

⁴⁰ Andrew Buncombe, "Thai Soldiers Killed as Border Temple Battles Flare," *The Independent*, April 4, 2009.

⁴¹ "China to Provide Grant Aid for Cambodian Army," *BBC Monitoring Asia-Pacific*, October 17, 2006; "China's Growing Presence in Cambodia," *Radio Free Asia*, May 28, 2008.

⁴² Geoffrey Cain, "Hun Sen's Diplomatic Juggling Act," *Asia Times Online*, July 18, 2008; "China's Growing Presence," *op. cit.*

⁴³ In 1997, Hun Sen expelled Taiwan's unofficial liaison office in Phnom Penh. Economic relations have continued despite a lack of official contacts.

China has become a dominant investor and employer in the kingdom, with over 3,000 companies and the establishment of a special economic zone in Sihanoukville for the production of goods to be exported duty free to China. The PRC also has become an important trading partner to Cambodia, with bilateral trade totaling \$1.1 billion in 2008. Although less than half of Cambodia-U.S. trade, this figure represented an increase of 21% over 2007. However, this rise in total trade disguised a 24% drop in Cambodian exports to China. Unlike some larger countries in Southeast Asia, such as Indonesia, Malaysia, and the Philippines, which have run trade surpluses or avoided large deficits with China, Cambodia runs a huge trade deficit with the PRC (growing from \$830 million in 2007 to \$1 billion in 2008).⁴⁴ According to one observer, about 60% of products in Cambodian markets come from China.⁴⁵

On the one hand, some observers contend that Chinese assistance has benefitted Cambodian development, adding that many PRC aid projects have faced difficult physical challenges and conditions that other major aid donors and organizations have avoided. Furthermore, they hold that China's involvement does not preclude or undermine the kingdom's relations with other nations such as the United States. On the other hand, other experts argue that the lack of conditions on PRC assistance and regulations on Chinese investments exacerbates corruption and environmental problems, such as illegal logging, in the kingdom. Some U.S. officials have expressed worry that as PRC economic support increases, the United States and other Western countries may lose leverage in calling upon the Cambodian government to engage in democratic practices and enforce the rule of law.

The ethnic Chinese community in Cambodia reportedly has regained its former economic clout and helped facilitate PRC investment. Roughly 3%-5% of the kingdom's population, or from 350,000 to 700,000 Cambodians, are ethnic Chinese, many of whom are descendants of settlers from southern China going back five centuries while others are part of a tide of recent immigration. Before 1975, ethnic Chinese in Cambodia, mostly city-dwellers, dominated commerce and trade in the kingdom. About half of the ethnic Chinese population reportedly perished under the Khmer Rouge. They faced discrimination under the Vietnamese-backed government during the 1980s, but have prospered under Hun Sen.⁴⁶ Some longtime Cambodian Chinese, however, wary of a Cambodian backlash against growing Chinese immigration and influence in the economy and mindful of the PRC's past support of the Khmer Rouge, reportedly feel resentful towards China's rising influence.⁴⁷

The largest Chinese language school in Southeast Asia reportedly is located in Phnom Penh. Asian languages, and in particular Chinese, are catching up to English as the most sought after foreign languages for learning. The most popular Chinese courses are related to business.⁴⁸

Potential Cambodian Linkages to International Terrorism

According to U.S. officials, Cambodia has made commendable counterterrorism efforts, although potential problems remain. Some experts warn that the country's increasing economic openness, porous borders, weak government capacity, and corruption increase the likelihood that regional

⁴⁴ PRC data. Global Trade Atlas.

⁴⁵ Evan Osnos, "China Turns on Charm, Wins Friends," *Chicago Tribune*, March 20, 2006.

⁴⁶ Michael Hayes, "Cambodia's Connections with All Things Chinese," *Phnom Penh Post*, January 23, 2009; "Dragon Herds the Paper Tigers," *China Economic Review*, September 1, 2006.

⁴⁷ Bertil Lintner, "The Third Wave," *Far Eastern Economic Review*, June 24, 1999; Jane Perlez, "China Competes with West in Aid to its Neighbors," *New York Times*, September 18, 2006.

⁴⁸ Geoffrey Cain, op. cit; "Chinese Skills Seen as Gateway to Better Job," *The Phnom Penh Post*, June 12, 2008.

terrorist groups such as Jemaah Islamiyah (JI) favor it as a safe haven.⁴⁹ For example, Hambali, the Indonesian accused of directing the October 2002 bombing in Bali, reportedly took refuge in Cambodia in 2002 and 2003.⁵⁰ In 2003, Cambodian officials arrested four men—one Cambodian Muslim, two Thai Muslims, and an Egyptian—for belonging to JI and plotting to carry out terrorist attacks in Cambodia. The three non-Cambodians were teachers at a Saudi-funded Islamic school that Cambodian authorities subsequently shut down.

In September 2006, U.S. Ambassador Joseph Mussomeli stated that “Cambodia has made great strides in securing its borders and rooting out terrorists that seek to use this country as a base of operations.”⁵¹ In 2004, the Cambodian government, in cooperation with the United States, destroyed 233 Soviet surface-to-air missiles to prevent them from falling into the hands of terrorists in Southeast Asia.⁵² In 2006, the Cambodian government enacted a new counterterrorism law that was drafted with the help of Australian and British experts. In 2007, a joint National Counterterrorism Committee was established. In January 2008, FBI Director Robert Mueller visited Cambodia to preside over the opening of a permanent Legal Attache Office for Cambodia and Vietnam.⁵³

Cambodia’s Muslims, mostly ethnic Cham people who practice a tolerant, syncretic form of Islam that incorporates Buddhism and other belief systems, make up about 5% of the kingdom’s population. The Cham, mostly poor farmers, fishermen, and traders, generally are not politically active. Their religious and educational institutions were destroyed by the Khmer Rouge. Since the early 1990s, however, assistance from the Middle East, Malaysia, and Indonesia have helped to build new mosques and religious schools and brought conservative strains of Islam in Cambodia.

Author Information

Thomas Lum
Specialist in Asian Affairs

⁴⁹ Jemaah Islamiyah is a Southeast Asian Islamist militant group with ties to Al-Qaeda.

⁵⁰ Hambali was captured in Thailand in 2003 and is being held by the United States. Verghese Mathews, “Weeding out Terrorist Camps in Cambodia,” *Straits Times*, October 27, 2004; Luke Hunt, “Cham Offensive,” *Far Eastern Economic Review*, July 29, 2004.

⁵¹ James Morrison, “Embassy Row,” *Washington Times*, September 11, 2006.

⁵² “Cambodia PM Pledges to Stop the Arms Flow to Sri Lankan Rebels,” *Dow Jones Commodities Service*, November 30, 2006.

⁵³ “U.S. FBI Chief Says Cambodia’s Fast-Growing Economy Makes it Important in Anti-Terror Fight,” Associated Press, January 31, 2008.

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